



Rural Broadband Access Loan and Loan Guarantee Program

Connecting Rural America



Rural Utilities Service
1400 Independence Ave.
Washington, DC 20250
www.usda.gov/rus/telecom





Broadband Program

Who we are...

General Field Representatives for the Rural Utilities Service. We assist applicants with understanding and completing the broadband loan application process and with post loan procedures.



Broadband Program

Leading the Broadband Revolution

“This country needs a national goal for...the spread of broadband technology. We ought to have...universal affordable access for broadband technology by the year 2007, and then we ought to make sure as soon as possible thereafter, consumers have got plenty of choices when it comes to (their) broadband carrier.”

- President George W. Bush, March 26, 2004.



Purpose and Eligibility

Loan and Loan Guarantee Program

To provide loans and loan guarantees for the cost of construction, improvement, and acquisition of facilities and equipment for broadband services in eligible rural communities.

Program Budgets

Broadband Loan Programs for 2004:

	<u>Appropriations</u>	<u>Farm Bill</u>
Cost-of-Money	\$598 million	\$1,453 million
4 Percent	\$0	\$80 million
Guaranteed	\$0	\$80 million
Total	\$598 million	\$1,613 million
<i>Total Both Programs</i>	<i>\$2,211 million</i>	



Program Statistics

93 Applications Received
Totaling \$1,150,000,000

Applications Processed to Date

23 Approved	\$268,000,000
29 In Review	\$338,000,000
41 Returned as	
Ineligible/Incomplete	\$544,000,000

Types of Entities

	<u>Applications</u>	<u>Approved</u>
Existing Borrowers	12%	14%
Borrower Subsidiary	14%	38%
Start-up Company	41%	38%
Tribal Authority	1%	5%
Public Utility District	1%	
Other	31%	5%

Program Statistics

Technologies

	<u>Applications</u>	<u>Approved</u>
Unlicensed Wireless	37%	22%
Fiber to the Home	22%	30%
Digital Subscriber Loop (DSL)	19%	30%
Hybrid Fiber Coax (HFC)	10%	13%
Licensed Wireless	5%	5%
Other	7%	



APPROVED APPLICATIONS

Technology: DSL

<i>Applicant</i>	<i>States Served</i>	<i>Approved Loan Amount</i>
Cheyenne Sioux River Telephone Authority	SD	\$ 4,230,000
Three River Communications, LLC	NE	\$ 2,500,000
Paul Bunyan Telephone Cooperative	MN	\$ 53,763,000
American Broadband and Telecommunications Co.	OH	\$ 416,000
Hayneville Fiber Transport, Inc.	AL	\$ 13,100,000
Central Cellular, Inc.	OK	\$ 5,133,000
Palmetto Rural Telephone Cooperative, Inc.	SC	\$ 25,687,000



APPROVED APPLICATIONS

Technology: FTTH/FTTP

<i>Applicant</i>	<i>States Served</i>	<i>Approved Loan Amount</i>
LBH, LLC	LA	\$ 3,958,000
Nex-Tech, Inc.	KS	\$ 5,395,000
Daktel Communications, LLC	ND	\$ 15,550,000
Yucca Telecommunications Systems, Inc.	NM	\$ 11,388,000
Sancom, Inc.	SD	\$ 19,879,000
Red Oak Communications, LLC	IA	\$ 8,082,000
Merton Capital, LLC	NH	\$ 3,717,000



APPROVED APPLICATIONS

Technology: HFC

<i>Applicant</i>	<i>States Served</i>	<i>Approved Loan Amount</i>
Midstate Communications, Inc.	SD	\$ 670,000
Hood Canal Telephone Co., Inc.	WA	\$ 1,777,000
Citizens Cable Vision, Inc	VA	\$ 11,716,000



APPROVED APPLICATIONS

Technology: Wireless Licensed

<i>Applicant</i>	<i>States Served</i>	<i>Approved Loan Amount</i>
Poplar PCS, LLC	AL, AR, CO, LA, MO, MS, OK, MS	\$ 56,869,000

Technology: Wireless Unlicensed

<i>Applicant</i>	<i>States Served</i>	<i>Approved Loan Amount</i>
Air Advantage, LLC	MI	\$ 1,500,000
Midwest Broadband, LLC	MO	\$ 4,343,000
Pioneer Long Distance, Inc.	OK	\$ 5,331,000
AL-GA Wireless Broadband, LLC	AL,GA	\$ 362,000
Pegasus Rural Broadband, LLC (1)	TX	\$ 13,044,431 12

Challenges

- Identifying areas where broadband doesn't exist
- Identifying potential providers
- Getting financially viable applications
 - Start-up companies
 - Competition
 - Multiple community
- Outreach and education on funding opportunities.

Who is eligible?

A legally organized entity providing or proposing to provide service to an eligible rural community that has no more than 20,000 inhabitants and has sufficient authority to enter into a contract with RUS and carry out the purposes of the loan.

Eligible Organizations

- Corporation
- LLC
- Cooperative or Mutual
- Indian Tribe
- Public Body

Who is not eligible?

- Individuals;
- Partnerships; and
- Any entity serving more than 2% of the telephone subscriber lines installed in the United States.

Purpose and Eligibility

Eligible Purposes ...

- New construction and improvements to existing facilities (bricks and mortar);
- Broadband facilities leased under the terms of a capital lease (limited to 5 years and option of ownership);

Eligible Purposes ...

- Facilities located outside of eligible rural communities that RUS determines are necessary to serve subscribers **located in** eligible rural communities;
- FCC Spectrum Licenses.

Eligible Purposes ...

- Acquisitions (less than 50% of the loan amount requested.); and
- Refinancing existing Telecommunications Program debt made under the Rural Electrification Act of 1936 (RE Act).



Purpose and Eligibility

Eligible Purposes - Refinancing ...

RUS will refinance existing RUS Telecommunications Program debt made under the RE Act if the savings will further the construction, improvement, or acquisition of facilities and equipment for broadband service. RUS will limit the funds lent for refinancing to 40 percent of the total loan amount.

Ineligible Purposes ...

- To acquire the stock, facilities, or equipment of an affiliate;
- To finance customer terminal equipment or inside wiring not owned by the borrower;
- To finance vehicles not used primarily in construction;

Ineligible Purposes ...

- To finance broadband facilities leased under an operating lease (i.e., tower leases, building leases, land leases, etc.);
- To finance mergers or consolidations; and
- To pay for operating costs (i.e., salaries and expenses).

Types of loans

- Direct Cost-of-Money Loans;
- Direct 4% Loans; and
- Private Loan Guarantees (up to 80% of the total loan amount).

Direct Cost-of-Money Loans ...

Bear interest at the cost of money to the Treasury for comparable maturities.

The interest rate is set at the time of each advance of funds

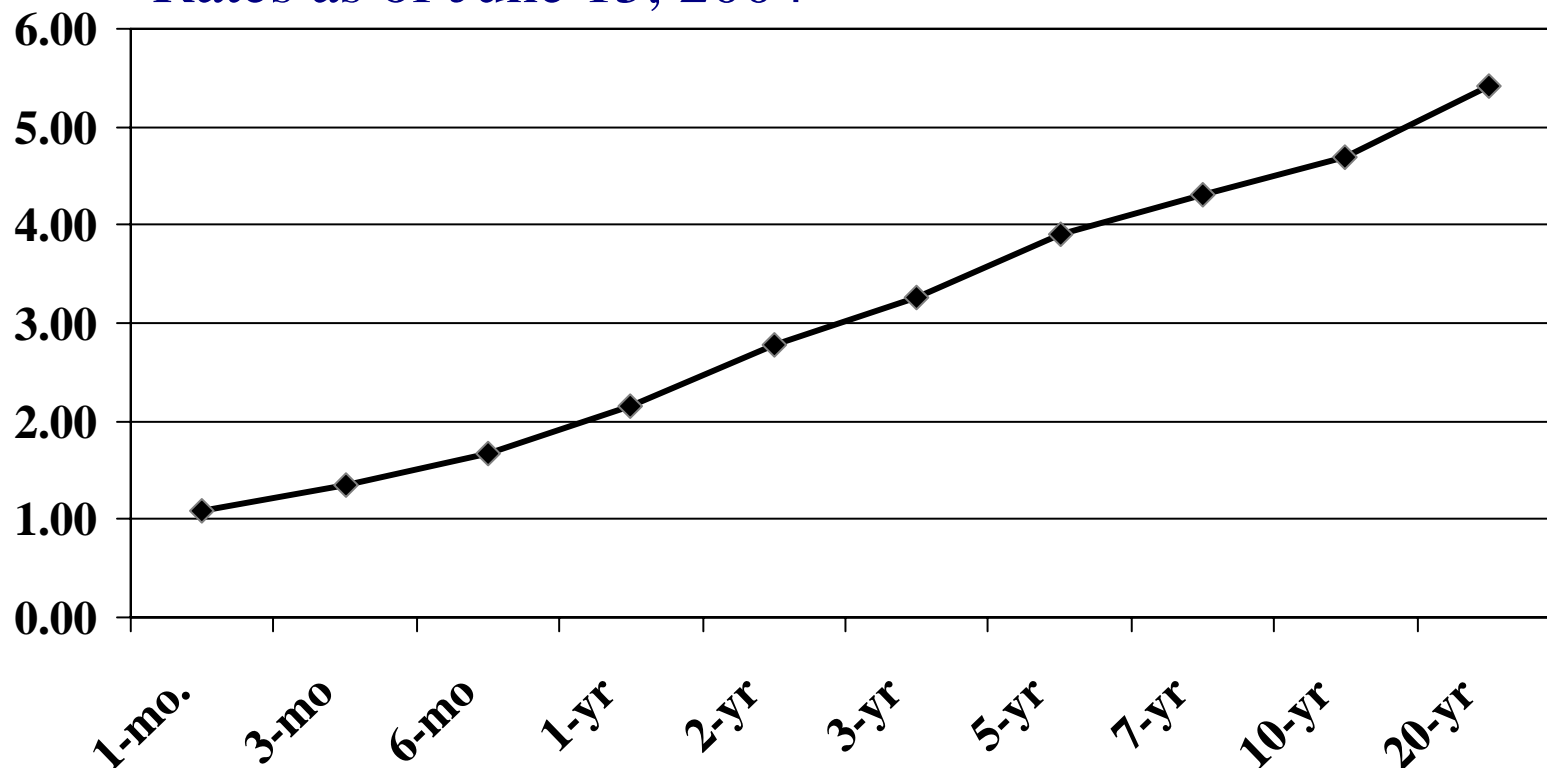
The current rates can be found:

<http://www.federalreserve.gov/releases/h15/update/>

Financing Portfolio

Direct Cost-of-Money Loans ...

Rates as of June 15, 2004



Direct 4% Loans ...

Made to serve communities that are:

- Not receiving broadband service;
- Have a population less than 2,500; and
- Located in a county with per capita personal income that is less than or equal to 65% of the national per capita income.

Direct 4% Loans ...

- Made to service areas with a maximum population density of 20 persons per square mile, calculated as the total number of persons in the service area divided by the square miles of the service area; and
- Made for no more than \$7.5 million

Loan Guarantees ...

- Bear interest at a rate set by the lender;

The interest rate must be fixed and the same for the guaranteed and unguaranteed portion of the loan.

- Are made for no more than 80 percent of the amount of principal; and

Loan Guarantees ...

Are available to any legally organized lending agency including commercial banks, trust companies, mortgage banking firms, insurance companies, and any other institutional investor authorized by law to loan money.

The private lender ...

- Is subject to credit examination and supervision by a Federal or state agency;
- Must demonstrate the capability of adequately servicing loans;

The private lender ...

- May establish charges and fees that are no greater than for similar loans; and
- Is required to fully service the loan.

Loan Terms

- Loans are made for a term equal to the expected useful service life of the facilities financed;
- Funds are advanced as needed;
- Interest is payable monthly on funds advanced;
- Principal payments are deferred for 1 year from the date of the first advance;

Loan Terms

- The minimum amount of a loan that RUS will consider is \$100,000;
- Maximum loan amounts apply only to the direct 4% loans;
- RUS requires a first lien on the borrower's assets; and

Loan Terms

RUS will require a borrower to maintain a minimum TIER of 1.25 but not require a TIER greater than 2.00.

Priority

First priority will be given to projects where broadband service does not exist.

Characteristics of Broadband Service

- Must enable a subscriber to transmit and receive at a rate of no less than 200 kilobits per second;
- Must provide data transmission service and may provide voice, graphics, and video.

Key Components of an Application

- Business plan;
- Market survey;
- Engineering design;
- Financial Information;
- Credit Support;

A Business Plan

Shall describe, in detail, the fundamentals of the business and provide sufficient financial data to demonstrate that the business will be economically sustainable. It shall be inclusive of the entire company's operations. It shall include . . .

A Business Plan should include:

- Introduction and request for funds;
- Statement of the business' purposes;
- Evaluation of main competitors;
- Analysis of the market for the applicant's business; and
- Refinance and Acquisitions (if applicable).

Market Research

- Supports feasibility studies and strategic planning goals;
- Provides the applicant with knowledge of market potential, an understanding of competition, and knowledge of the needs/demands of the potential base.

Market Research

- Shall be conducted by the applicant in *each* community proposed to be served over the 5-year forecast period.
- Will collect data from potential subscribers (both residential and business) on the existing service offerings and the respective rates; and
- Will determine the levels of interest in the services and rate plans to be offered by the applicant.

Market Surveys can be conducted through the following mediums:

- Direct Mail;
- Telephone;
- Door-to-door interviews; and
- Town Meetings

Market Survey questionnaires should, at a minimum, capture the following information:

- Ownership of computers and Internet usage (including time online);
- Existing service provider, rate plans (both price and transmission rate), satisfaction with current provider;
- Proposed services offered by applicant, the respective rate plans (including any one-time fees), and the timeline for providing those services;

Market Survey

- Incentive/introductory packages offered by the applicant;
- Interest in switching service providers and reasons for switching (price, service level, customer service/local presence; and
- Economic and social demographics including age, income level, and family/household members.

Only considered valid if conducted within 6 months preceding date of submission of the application to RUS.

The System Design must be:

Prepared by qualified personnel on the applicant's staff or by consultants. The consultant must be a registered engineer or a registered engineer must certify the design. If the applicant prepares the system design internally, a description of the staff's qualifications must be provided. System Design information shall include all the technical information on the applicant's existing and proposed systems.

A comprehensive engineering evaluation of the system will be done to ensure the following:

- Proposed technology is capable of delivering broadband services at the minimum transmission data rate as defined by the latest NOFA;
- Projected number of subscribers that can be served in the proposed coverage area; and
- All required agreements/licenses needed to operate the system have been identified and appropriate action has been taken to put them in place.

Shall Include:

- If applicable, a detailed description of all existing facilities that the applicant owns – not just those that will be used to deliver broadband service;
- Detailed description of all proposed facilities to be constructed, including distance or coverage limitations associated with the proposed facilities;
- Detailed description of the proposed technology; and
- A schedule that includes the proposed build-out of each construction project on an annual basis.

Shall Include:

- Certified financial statements for the last 3 years;
- Subscriber Projections on a yearly basis for five years;
- Pro Forma 5-Year Financial Forecast; and
- Detailed narrative line item assumptions.

RUS requires the applicant to provide credit support in an amount equal to 20% of the requested loan amount

As part of the 20% requirement, the applicant must have cash in an amount equal to operating expenses for the first full year of providing service. *This amount is the total operating expenses for Year 2 shown on the Pro Forma Income Statement.*

This cash requirement will be waived for applicants that have positive cash flow for the two calendar years immediately preceding the date of application.

The remainder of the 20% requirement can be met with net tangible assets that could be financed as part of a loan, additional cash or cash equivalents, licenses, or an irrevocable letter of credit:

- Net Tangible Assets must be in the name of the applicant. They are valued at net book value less any liens and payment obligations against them. These tangible assets must be assets that would normally be funded by RUS as part of the loan.
- Licenses are valued at the lower of cost or market value net of liens or other obligations of payments for those licenses.



Application Information

The regulations, application, application guide, and all other relevant information is available on our website at:

www.usda.gov/rus/telecom/broadband.htm.



Application Information

A prospective applicant should contact a General Field Representative (GFR) prior to submitting an application.

GFR contact information can be found at the end of the loan application user's guide and on our website.



FORM 532 – Questions 1-6

1. Name & Address of Applicant
2. Registered Agent
3. Phone Number
4. Fax Number
5. E-mail Address
6. Contact Person

Type of Organization

Applicant checks one box from the following:

- Corporation
- LLC
- Cooperative or Mutual
- Indian Tribe
- Public Body

Type of Loan

Applicant checks one box from following:

- Direct Cost-of-Money
- Direct 4 Percent
- Loan Guarantee

Applicant checks box(es) that apply:

- Refinancing
- Acquisition
- Not Applicable



FORM 532 – Question 10

Purpose of Loan

Applicant should briefly explain the purposes for which loan funds are intended and the amount required for each purpose.

Loan Maturity Requested

Applicant checks one box from the following:

- Composite Economic Life of Facilities Financed (weighted average of useful lives)
- _____ Years (if less than composite economic life)
(Applicant to complete number of years.)



FORM 532 – Questions 12 -15

12. Amount of Loan Request
13. Employer Tax Identification No. (TIN)
14. Organizational Number
15. Congressional Districts of applicant and project. (Schedule A)



FORM 532 – Question 16

Legal Opinion (Schedule B-1)

- Attach Opinion on Firm's letterhead

Real Property Schedule (Schedule B-2)

This section is separated into 3 sections that must be completed as follows:

1. Real Property Owned
2. Real Property Leases that are part of the Telecommunications System (indicate record owner of property)
3. Easements and Rights-of-Way



FORM 532 – Question 17

Compliance Certificates (Schedules C-1 Thru C-8)

- A. Equal Opportunity and Nondiscrimination (Schedule C-1)
- B. Certification regarding Architectural Barriers (Schedule C-2)
- C. Certification regarding Flood Hazard Area Precautions (Schedule C-3)
- D. Assistance and Real Property Acquisition Policies (Schedule C-4)
- E. Certification regarding Debarment and Suspension (Schedule C-5)
- F. Certification regarding Lobbying Activities (Schedule C-6)
- G. Environmental Impact Certification (Schedule C-7)
- H. System Design Certification (Schedule C-8)

Communities (Schedules D-1 thru D-3)

- Existing and Proposed Communities (Schedule D-1)
- Existing Service Providers (Schedule D-2)
- Service Area Maps (Schedule D-3)



FORM 532 – Question 19

Certification of Broadband Availability (Schedule E)

Applicant completes and certifies to the availability of broadband service.



FORM 532 – Question 20

Notice of Proposed Service Schedules F-1 thru F-2

- A. Proof of Legal Notice for all areas of proposed service (Schedule F-1)
- B. Sufficiency of Legal Notice (Schedule F-2)



FORM 532 – Question 21

Corporate Structure (Schedules G-1 thru G-5)

- A. Articles of Incorporation or Organization
(Schedule G-1)
- B. State LLC Statute (if Applicant is LLC)
(Schedule G-2)
- C. Board of Directors or Managing Members
(Schedule G-3)
- D. Organizational Chart (Schedule G-4)
- E. Parent and Subsidiaries, if any (Schedule G-5)₈₈

22. Executive Summary (Schedule H)

Include a high level description of the proposed project.

23. Credit Support (Schedule I)

Check the categories that will be used to satisfy the credit support requirement.

24. Board Resolution (Schedule J)

Research Data (Schedule K-1)

Shall contain the methodology for conducting the market survey and the tabulated results for each community.

The results should include:

- Total number of respondents;
- Number and percent of responses to each question; and
- Cross-tabulations for income levels, computer ownership, Internet usage.

Market Analysis (Schedule K-2)

- Applicant will draw conclusions regarding projected subscriber levels across different service levels/rates for each community for each year of the financial forecast;
- Results will clearly differentiate business subscribers from residential subscribers.
- Results will be based on the tabulated data from the market survey, as well as other market data gathered with respect to existing and potential competition, and demographics of each community.

Market Analysis (continued)

- Applicant must clearly explain the methodology behind the final subscriber projections.
- Subscriber projections based on population numbers and national/state statistics are not acceptable on their own.
- Projections must be supported from the market research.

Business Plan (Schedule L)

- General Overview
- Business Purposes
- Organization and Management
- Evaluation of main competitors
- Market Analysis
- Financial Information
- Refinancing and Acquisitions

General Overview and request for funds:

- Describe how the loan funds will be used;
- Detail of sufficient working capital;
- Investments in the company – describe investments made for the proposed project;

A statement of the business purposes:

- Describe the services/goods the company intends to offer;
- Describe the current state of development of good and services;
- Provide the status of any required license/regulatory approvals.

Details of your organization and management:

- Provide an organizational chart;
- Provide a list of key personnel, their duties and resumes;
- Describe management's previous working relationships, if any;

Details of your organization and management:

- Explain how the management team's skills complement each other;
- Describe employee compensation and ownership including salaries, stock ownerships, bonus plans, and equity investments of key personnel; and
- Describe the size and composition of the board of directors and identify the members.

Evaluation of main competitors:

- Detail the companies competing in your target markets, provide pricing comparisons and describe the quality of services;
- Compare your prices to those of your competitors.
- Compare your quality to those of your competitors.

Market Analysis:

- Describe factors affecting market growth and how they will impact your plans;
- Describe the basis and willingness for customers' decision to take your services (price, quality, delivery, etc.) as supported by your market analysis;
- Describe your pricing strategy, your pricing goals for the short- and the long-term;

Market Analysis:

- Describe your approach to advertisement and promotion of your services;
- Discuss current status, prospects, and trends influencing the industry and your target communities.

Financial Information:

This section should include management's narrative presentation of the financial position of the company.

Refinancing and Acquisitions:

- Describe how refinancing current RUS debt would benefit and enhance the broadband value of services.

Business Plan must tie-in to the pro forma financial information and the marketing analysis.

Management and Compensation (Schedule M)

Include a list of key personnel and their compensation packages.

Financial Position (Schedules N-1 thru N-5)

- A. Historical Financial Statements for the last 3 years with full footnotes and disclosures. (Audited Financial Statements are required if available.)
(Schedule N-1)

Must include balance statement, income statement and statement of cash flow.

Must include historical financial statements of parent and/or subsidiary company.

Must provide evidence of the credit support and/or cash requirement that was addressed in Schedule I.

Financial Position

B. Subscriber Projection Tables (Schedule N-2)

Subscriber projections shall be provided on a yearly basis for 5 years.

Market Analysis should support subscriber projections!

Financial Position

C. Pro Forma 5-Year Financial Forecast (Schedule N-3)

- Must cover at least 5 years and be inclusive of **ALL** operations of the applicant, existing and proposed.
- Must include a balance sheet, income statement, statement of cash flow and detailed assumptions.
- Applicants should consider using the account categories in the FCC Uniform System of Accounts as shown in the examples in the Application Guide.

Financial Position

D. Depreciation Schedule (Schedule N-4)

- Provide a list of the depreciation rates that will apply to all existing and new facilities.



FORM 532 – Question 28

Financial Position

E. Total Outstanding Indebtedness (Schedule N-5)

Include a listing of all outstanding RUS indebtedness, including loan maturity and interest rates.

System Design (Schedule O)

A comprehensive engineering evaluation of the system will be done to ensure the following:

- Proposed technology is capable of delivering broadband services at the minimum transmission data rate as defined by the latest NOFA;
- Projected number of subscribers that can be served in the proposed coverage area; and
- All required agreements/licenses needed to operate the system have been identified and appropriate action has been taken to put them in place.

System Design shall include:

- If applicable, a detailed description of all existing facilities that the applicant owns – not just those that will be used to deliver broadband services;
- Detailed description of all proposed facilities to be constructed with loan funds, including distance or coverage limitations associated with the proposed facilities;
- Detailed description of the proposed technology; and
- A schedule that includes the proposed build-out of each construction project on an annual basis.

Network Diagrams (Schedule P)

Existing and proposed network diagrams shall be included as block diagrams that clearly show the traffic flow through the network.

Summary of Project Costs (Schedules Q-1 thru Q-11)

- Total Cost of Project (Schedule Q-1)
- Project Costs by Year (Schedule Q-1a)

Applicant should provide the following details:

- Network and Access Equipment (Schedule Q-2)
- Outside Plant (Schedule Q-3)
- Buildings (Schedule Q-4)
- Land (Schedule Q-5)
- Towers (Schedule Q-6)
- Customer Premise Equipment (Schedule Q-7)

Applicant should provide the following details:

- Operating Equipment (Schedule Q-8)
- Engineering (Schedule Q-9)
- Refinancing (if applicable) (Schedule Q-10)
- Acquisition (if applicable) (Schedule Q-11)



FORM 532 – Question 32

Environmental Report (Schedule R)

Applicants are responsible for ensuring that proposed actions are in compliance with all appropriate RUS/NEPA requirements.

(7 CFR Part 1794)



FORM 532 – Question 33

Tower, Equipment and Building Leases (Schedule S)

Executed copies of all tower, equipment, and building leases shall be included in Schedule S.

Licenses and Agreements (Schedules T-1 thru T-7)

- FCC Licenses (Schedule T-1)
- CLEC Licenses (Schedule T-2)
- Franchise Agreements (Schedule T-3)
- Interconnection Agreements (Schedule T-4)
- Management /Service Agreements (Schedule T-5)
- Bylaws or Operating Agreement (Schedule T-6)
- Other Major Agreements (Schedule T-7)



FORM 532 – Question 34

Guaranteed Loans (Schedules U-1 and U-2)

- Lender Information (Schedule U-1)
- Loan Contract (Schedule U-2)



FORM 532 – Question 36

Is the Borrower Delinquent on any Federal Debt?

Applicant should check box and if response is positive attach an explanation.